

Analysis of the construction industry economics essay



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Samsung Construction is the founding of the Samsung Group. It is a South Korean multinational company headquartered in Samsung SEI Tower in which was founded in 1970. Samsung Construction has become a leader in the global construction industry with remarkable achievements on landmark projects worldwide and is known for actively involvement of various projects in the field of Refinery, Petrochemical, Oil & Gas, Fertilizer and Industrial Plant for over 3 decades. The Company has earned reputation of doing Quality jobs within Scheduled framework and applying Cost-effective measures. It has made its strong presence felt in the Middle East, Mexico, American Continent, Thailand and India besides Korea where a number of prestigious projects have been successfully executed to the utmost client satisfaction.

Samsung Engineering is a professional engineering company delivering whole range of service from feasibility study to engineering, procurement and construction.

Currently the company is active in the Middle East, Southeast Asia, India and other parts of the world, where it is carrying out a total of 8.4bn dollars of projects (figures as of end of 2007, among which 6.6bn dollars are overseas portion) in parallel.

<http://frkr-low-carbon.net/Presentation/W1A/1A%20S6%20Seun-Ho%20SHIN.pdf>

Analysis of the construction industry

History

The construction industry seems to have great impact on the overall health of world's economy. (GlobalEdge 2013). When the demand of the construction increases, that enables many industries to grow aswell, and vice verse. The construction industry has variety of subsidies which is not only composed by building structures only, but also those that are capable of designing, developing, repairing or even sustaining structures (GlobalEdge 2013).

The construction industry was introduced in ancient times where people used to build shelters out of natural resources that were made available for them due to the low knowledge at that time. However the industry has changed ever since, particularly in the modernised economy. The basics is still there and humans still use natural resources to build objects, such as roads or buildings that are of use to them (GlobalEdge 2013).

The construction industry is characterized by cycles of growth and depression. The outcome of companies that make construction materials is tied closely to the amount of new construction taking place; that, in turn, is influenced by interest rates and the growth of the other industries in the economy. Recent construction history has been largely determined by the raising interest rates and economic outlook (GlobalEdge 2013).

3. PEST analysis of the country you are looking to enter (30%)

4. SWOT analysis pertaining to your preferred entry strategy (20%)

5. Recommendations for preferred consequent entry strategy (10%)

CIA - The World Factbook. 2013. CIA - The World Factbook. [ONLINE]

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January 2013].

Market Structure

The demand in the construction industry is growing highly in the few years especially since the recession occurred. The revenue of building and construction materials in Brazil have grown by an 4. 9% despite the recession occurring meanwhile if you compare it to other countries such as the Dutch building sector it has had an effect which resulted to unemployment and bankruptcies within firms in the industry.

The demand of cement in Brazil is also strong as they are placed now the fifth largest consumer in the world just behind the other emerging countries Russia, China and India. Even though the high demand, Brazil faces difficulties in terms of designing the architecture of buildings. The interpretation of customers' needs for the product is poor, companies use traditional building processes but they introduce technical innovations

gradually and in differentiated ways, and the interpretation of design codes is poor (Novaes 1999).

Brazil's composition of the market is quite different from other markets as there is a diversity in trade flows between income classes which are huge. The flow diagram below explains the construction sector in Brazil as they focus on the 'final consumer' in 2003. In this figure capital flows are indicated in national currency "real" (i. e. 23. 70 bi = R\$ 23. 70 billion) and the flow of materials are listed in quantities of housing units (E. g. 79 mil UH = 79, 000 housing units and 28 mil = 28, 000 housing units) (PCC USP 2003).

The construction industry has one of the lowest possible coefficients of export which is not more than 2% of the total demand. The industry also influences directly and indirectly the demand for import and production of other industries (PCC USP 2003). The low export numbers of the sector, and consequently also of other related industries, are the main reason that the economic recession had no big influence on the construction sector in Brazil (CemWeek 2009).

The market structure within Brazil has been examined and the question that companies need to ask themselves is what strategies are construction companies using to stay competitive? The strategy used, influences the ability to adapt to the demand of the customer and to demands of the other markets. Brazil is making big steps in modernizing the construction industry.

The biggest construction company in Brazil is Odebrecht S. A., with Gross revenue of US \$17, 524 million. However, the biggest building construction companies are Gafisa and Cyrela. Beside six Chinese contractors in the top
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100 of largest companies in the world, there are only five other companies from developing world countries. Odebrecht is on the 79th place with only Turkey's Enka (60th) and India's Larsen & Toubro E&C (72th) in front.

Andrada Gutierrez is the only other company in the top 200 on the 87th place (Sleight 2008). Gafisa and Cyrela are outside the ranking.

The import penetration for the construction sector in Brazil is about 67% (2004). This is the ratio of import of a construction product to the total sales of the product (value of import + value of domestic production). In 1993 this rate was 47%. The reason for this increase is the opening of the economy. Greater exposure to international competition force firms to make a substantial effort to increase their efficiency. This can also be seen when the % productivity change is examined between 1996 and 2002. The production change in the construction material is almost 60%. Construction materials are needed to construct the buildings, so this is a good indicator. When we look at the wages and added value in this sector, then we might conclude that a shift is made to a more capital-intense market. Between 1996 and 2002 the Salary - Value Added ratio has decreased from 32.4 to 20.8.

<http://www.boomingbrazil.com/>

[nl/uploads/media/Construction_of_Buildings_in_Brazil.pdf](#)

References

Economy Trends

Brazil is characterised and is famously known for the development of agricultural, mining, manufacturing and the service sector. Brazil is poised to become the fifth largest economy in the world and their economy is <https://assignbuster.com/analysis-of-the-construction-industry-economics-essay/>

dominating all the other South American countries, and is looking to expand their existence in the world markets. Brazil has since 2003 been gradually recuperating their macro economical stability, by structuring their foreign reserves and at the same time trying to reduce their debt profile by shifting its debt burden towards real denominated and domestically held instrument (CIA 2013).

After successful and strong growth between 2007 and 2008, it wasn't until the late 2008 the global financial crisis hit Brazil where they experienced two quarters of recession. This resulted to their global demand which included exports and external credit to be dwindling and dried out. However, Brazil was one of the emerging market that made a great recovery and recouped their recession as in 2010, as their GDP growth reached a extaggering 7. 5% which became their highest GDP growth rate in the past 25 years.

Due to the inflation rising quite high, led the government to take some measures to slow down the economy, these decisions conducted and economy situation becoming weaken by recession slowed however their growth by 2. 7% in 2011. Although having a slow growth in 2011, it didn't stop Brazil to overtake the United Kingdom as the world's seventh largest economy in terms of GDP and is poised to become the fifth largest economy in 2015.

As Brazil is the host nation of the World Cup in 2014 and the Olympics in 2016, it is expected to poise huge investments for new infrastructure and creates a great opportunity for companies like Samsungs Construction to take advantages of this project.

Urban unemployment is at the historic low of 4.7% (December 2011), and Brazil's traditionally high level of income inequality has declined for each of the last 12 years. Brazil's high interest rates make it an attractive destination for foreign investors. Large capital inflows over the past several years have contributed to the appreciation of the currency, hurting the competitiveness of Brazilian manufacturing and leading the government to intervene in foreign exchange markets and raise taxes on some foreign capital inflows. President Dilma ROUSSEFF has retained the previous administration's commitment to inflation targeting by the central bank, a floating exchange rate, and fiscal restraint.

PEST analysis of the country you are looking to enter (30%)

In order to develop a strategy for entry into a market, it is important to understand the macro environment that can influence the industry and consequently its participants. A PESTEL analysis can be carried out looking at each aspect related to the industry.

2.3.1. Political

The main company in the market is a state-controlled company which is called Petrobras; many political factors influence the industry. At this moment in time Brazil is considered a politically stable country with a democratic government, but with the approaching presidential elections, there are some political uncertainties that can arise. Therefore, a private company aiming to establish a good position in the country must be aware of the need to evaluate the relationship level with the government and the regulator as part of its market strategy, in addition to the possible changes with the new government.

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2. 3. 2. Economical

Brazil is enjoying a moment of economic stability and rapidly recovered from the impacts of global recession, reassuming the Gross Domestic Product (GDP) growth trend which is projected to 5. 5% in 2010 (IMF, 2010). Also, the oil industry is very economically important for the country, but differently from other resource rich countries, its economy is diversified. This scenario also suggests an increase in national demand for energy, which becomes a potential sector to invest.

2. 3. 3. Social – Cultural

Socio-cultural aspects can affect marketing strategy of companies that seek to do business in international markets. In this context, BP must adapt to the fact that lot of the business in Brazil is done in Portuguese and it must overcome language barriers. Also, Brazil is still a country in development and a lot still has to be done in social aspects such as investment in basic and higher education. This leads to a challenge of dearth of necessary skilled professionals to work in an industry that demands high technical knowledge.

2. 3. 4. Technological

The oil and gas industry is extremely dependent in technology and many technical challenges in exploration for new oil reserves promoted the development of high technology equipments for the various needs and contributed for the great expansion of the industry. Brazilian exploration activities mainly take place offshore, where 93% of proved reserves are located (ANP, 2009) which impose considerable technological barriers to oil companies.

4. SWOT analysis pertaining to your preferred entry strategy (20%)

An essential part of this analysis is to identify Samsung Construction strengths and weaknesses, which can make it a potential strong player in the Brazilian market, and the opportunities and threats that market may present.

Samsung Engineering has a reputation for delivering projects on time and uses the latest innovations to engineer industry-leading facilities

This strength can also be supported by BP group chief executive Tony Hayward's statement " This strategic opportunity fits well with BP's operating strengths and key interests around the world, offering us significant additional long-term growth potential with an emphasis on high-margin oil" (BP, 2010b). Also BP is a strong energy brand, with presence in most of the emerging markets such as West Africa, China and Russia.

Although recognized worldwide, BP must face its weakness concerning this expansion such as the lack of knowledge and experience on the Brazilian E&P market and its specific and local business requirements. Also, its late arrival into this market means that it must build all the structure for its operation, from its own personnel to supply chain partners, an effort that will take time till it can achieve a strong position.

As seen in the macro environment analysis, there are threats presented by different sides from technological to political.

The oil industry potential and the country's overall growth makes Brazil one of the most attractive regions in the world with great opportunities for

business development. The pre-salt area is seen as the biggest focus and as identified, the upstream sector is in growing expansion, having different areas for investments. Brazil is already the seventh consumer of oil in the world (MME, 2009) and national demand for energy is growing creating more areas for companies to expand in the market and meet customers' needs. Finally, there is opportunity in sharing offshore expertise with Petrobras, which is also a major player in such projects, therefore important to gain more experience in the local market.

Market Opportunities

There are few, if any, sectors in Brazil that do not have excellent short term opportunities. Certain sectors of the Brazilian market have experienced higher than average growth, such as air transportation, telecoms, oil and gas, and mining. Under the second phase of the Growth Acceleration Program (PAC II), the Government of Brazil will spend R\$955 billion (the equivalent of around US\$470 billion) in development of the country's energy generation and distribution system, roads, railroads, ports, and airports as well as stadiums as it prepares for the World Cup in 2014 and the Olympics in 2016. Other promising areas for U. S. exports and investment include agriculture, agricultural equipment, building and construction, aerospace and aviation, electrical power, safety and security devices, environmental technologies, retail, and transportation.

The Brazilian national oil company Petrobras' expansion may represent the largest global business opportunity in the oil & gas sector until 2020. The offshore pre-salt oil deposits discovered in 2006 and 2007 are estimated to exceed 60 billion barrels in probable or recoverable reserves, and could

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place Brazil among the world's top ten oil-producing countries. Petrobras anticipates that it will invest \$224 billion in exploration and development through 2015.

Brazil is one of the largest IT markets within the emerging economies. IT end-user spending in Brazil is expected to grow to \$134 billion in 2014. The largest share of spending will be on telecom equipment, representing 72% of the market, followed by IT services at 13.3% and computing hardware at 11.9%.

In the years leading up to the 2016 Olympic Games in Rio de Janeiro, Brazil will host several international mega-events. In 2011, Brazil hosted the World Military Games and the Pan-American Maccabi Games and in 2012, Rio de Janeiro hosted the Rio+20 global environmental sustainability conference. In 2013, Brazil will host a papal visit and the World Youth Day event as well as the soccer Confederations Cup. In 2014, twelve Brazilian cities will host the soccer World Cup. The Government of Brazil expects to invest \$106 billion in the preparations for these events. These investments, which will include outlays for infrastructure, construction, transportation systems, port improvements, public security, and airport infrastructure upgrades, will present significant commercial opportunities for U. S. companies. Most of the major infrastructure upgrades will be carried out through Public-Private Partnerships under Brazil's Growth Acceleration Program.

5. Conclusion

As discussed above, there are real opportunities for a market expansion by BP in the Brazilian crude oil market in a national and international level. First,

in line with increasing demand and possibilities of exploring new resources in the country, the scenario is very favourable for a global company with extended investment capacity. Secondly, the opportunity to bring the Brazilian oil to an international market looking for new resources is attractive for a company that already has an international position and BP can use this advantage to meet this goal.

Moreover, these opportunities come with different challenges imposed by technological requirements and political and social interests, and by overcoming them; BP would be able to become a strong player in the Brazilian E&P market. At this point, a key strategy will be to seek alliance with Petrobras not only for sharing participation in the blocks, but as partners to grow nationally.

Also, BP must focus on prioritizing the national market in the first place, build a reliable position and relationship with customers and partners, then thereafter consider meeting the demand from abroad. To acquire market share, BP must look at the new and independent refinery developments and targets with a differentiated approach. In conclusion, Brazil was the missing part of BP's global portfolio and E&P is just one of the first big opportunities on the way.